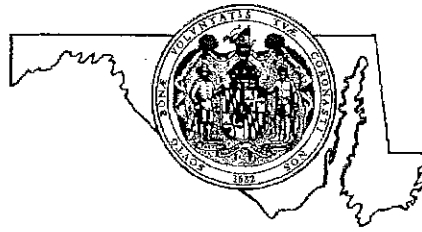


Craig P. Tanio, M.D.  
CHAIR

STATE OF MARYLAND



Ben Steffen  
EXECUTIVE DIRECTOR

**MARYLAND HEALTH CARE COMMISSION**

4160 PATTERSON AVENUE – BALTIMORE, MARYLAND 21215  
TELEPHONE: 410-764-3460 FAX: 410-358-1236

April 4, 2014

**VIA Email & U.S. MAIL**

Richard G. McAlee, Hospital Counsel  
MedStar Southern Maryland Hospital Center, Inc.  
2000 North 15<sup>th</sup> Street, Suite 302  
Arlington, VA 22201

Re: MedStar Southern Maryland Hospital Center  
New Construction and Renovations  
Matter No. 13-16-2350

Dear Mr. McAlee:

Maryland Health Care Commission (“MHCC”) staff has reviewed the information submitted by MedStar Southern Maryland Hospital Center (“MSMHC”) on February 28, 2014 and March 21, 2014. Staff requests further clarifications regarding both the revised financial projections based on the global budget revenue (GBR”) agreement between MedStar and HSCRC and the revised operating room utilization projections and needs assessment.

Regarding the financial projections which were revised to be consistent with the global budget revenue (GBR”) agreement between MedStar and HSCRC, MHCC staff notes that the projections submitted as Exhibits A through D to the February 28<sup>th</sup> response include projections assuming an 85% variable cost factor and projections assuming a 50% variable cost factor.

While we recognize that the financial projections assuming an 85% variable cost factor were originally prepared based on the HSCRC rate setting methodology in place at the time the application was prepared, this methodology is no longer in place or relevant. Although the alternative financial projections with the 50% variable cost factor was prepared at the request of MHCC staff, we do not find reference to it in the GBR and are not sure if it remains relevant..

Therefore, please respond to the following questions based on the GBR agreement and the methodology contemplated by its terms and conditions:

1. Please resubmit the revenue and expense projections utilizing the GBR methodology, one table without inflation and one table with inflation. Please reconcile the 2014 Gross Patient Services Revenue with the GBR agreement that provides for \$260,984,437 for MSMHC. Clearly state any terms, references or assumptions related to the GBR in these projections.
2. Provide additional assumption details for the projected revenue for years 2015 through 2020 that clearly shows the projected changes in the GBR itemizing expected increases due to the population adjustments, decreases due to the reduction in potentially avoidable utilization and increases due to increases in market share, and any additional adjustments that will be requested to cover increased capital costs. Explain how these increases and decreases are calculated.
3. Update the volume projections (November 21, 2013 response, Exhibit 21) to account for changes in utilization projections as a result of the new All-Payer Methodology. Specify expected reductions in volume due to reductions in potentially avoidable utilization, and explain how any such adjustments are calculated.
4. Regarding the assumptions that accompany Exhibits A through D of the February 28, 2014 response, please respond to the following:
  - a) Explain what is meant by, "inflation equals 50% of the inflation of revenue allocated between allowance for bad debt, contractual allowance and charity care."
  - b) What is meant by "discounted revenue" as used in the assumption "variable expenses related to the incremental volume growth equals 59% of discounted revenue"?
  - c) Document the source of the national averages used to validate the 59% variable expense factor.

The revised operating room needs analysis indicates a current need for 6.1 operating rooms, and projects very aggressive growth over your projected FY 2014 utilization (annualized based on eight months), especially in inpatient cases, which are projected to increase from 1,731 to 3,815 (a 120% increase) in 2020. Meanwhile outpatient cases are projected to grow at a much more modest 15.7%. The projected surgical minutes reflect parallel increases, 118.6% for inpatient use and 16.7% for outpatient use. Please respond to the following questions in sufficient detail to explain the basis for and the reasonableness of such significant growth in inpatient surgery and much more modest growth in outpatient surgery.

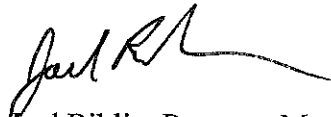
5. Explain the assumptions underpinning your projections that inpatient surgical cases will more than double, and that outpatient surgical cases will increase by 16% within a five year span. What factors support these projections?

6. Please explain where all of this additional volume will come from, especially in an environment in which Maryland is emphasizing population health and lowered utilization.
7. What hospitals will lose this volume, which must obviously include a large market share shift in addition to some organic growth?
8. Please quantify by surgical specialty the projected growth in inpatient and outpatient surgical cases from FY 2014 to FY 2020:
  - a) For which there are not specific growth strategies as identified on page 3 of the March 21, 2014 response; and
  - b) For colorectal surgery, general surgery, breast surgery, orthopaedic surgery, and vascular surgery. The total number of cases should agree with the numbers reported in your March 21<sup>st</sup> response.

Please submit a response to these questions within 10 business days from receipt of this letter. As always, extensions will be granted, if more time is needed to provide complete responses. All information supplementing the application must be signed by the person(s) available for cross examination on the facts set forth in the supplementary information, who shall sign a statement as follows: "I hereby declare and affirm under the penalties of perjury that the facts stated in this additional information and its attachments are true and correct to the best of my knowledge, information, and belief."

If you have any questions regarding this request or the formal review of this application, please contact me at (410)764-5596, Bill Chan at (410) 764-3374 or Kevin R. McDonald at (410)764-5982.

Sincerely,



Joel Riklin, Program Manager

cc: Patricia G. Cameron, MedStar Health  
Thomas Dame, Esq.  
Howard Sollins, Esq.  
Pamela Creekmur, Prince George's County Health Officer  
(internal distribution)